FitchRatings

RATING ACTION COMMENTARY

Fitch Revises Outlook on IIFL Finance to Positive; Affirms at 'B+'

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Fitch Ratings - Singapore - 16 Oct 2025: Fitch Ratings has revised the Outlook on India-based IIFL Finance Limited's (IIFL) Long-Term Issuer Default Rating (IDR) to Positive from Stable, and affirmed the IDR at 'B+'. Fitch has also affirmed the rating on IIFL's senior secured debt at 'B+' with a Recovery Rating of 'RR4'. In addition, the global medium-note programme (GMTN) rating has been affirmed at 'B+'.

KEY RATING DRIVERS

Standalone Profile to Improve: The Outlook revision reflects our view that IIFL's credit profile could improve over the next two years, particularly its business and risk profiles, asset quality and funding diversity. An improved credit profile could be positive for IIFL's ratings. Loan growth has rebounded following the lifting of regulatory restrictions on IIFL's gold-backed lending business in September 2024, with broadening funding flows supporting new disbursements in gold-backed loans and other products over the past several months.

The revision also reflects Fitch's expectation of a gradual decline in legacy problem assets over the next two years along with stabilisation of asset quality risks as management pivots the portfolio towards secured lending categories. Nonetheless, we believe near-term credit costs will remain elevated as management remediates existing problem loans, and rapid loan expansion could stretch risk and control frameworks, and raise operational risks. It will take time to assess the robustness of IIFL's controls as the business scales following the lifting of the regulatory restrictions.

Renewed Focus on Secured Loans: Loan assets under management (AUM) rose by 21% yoy in the first quarter of the financial year ending March 2026 (FY26), led by secured loan categories such as gold-backed loans (33% of total AUM at end-1QFY26) and housing loans (38%). Riskier unsecured loan classes such as microfinance (11%), small business loans and personal loans contracted in 1QFY26, mirroring softer industry growth amid asset quality pressure in these unsecured segments.

We expect AUM growth to continue apace in the medium term with a focus on secured business lines. A higher secured loan mix could reduce IIFL's exposure to asset quality risks, if managed well. High growth as the company shifts its portfolio could raise operational risks, but this may be mitigated by greater regulatory clarity on gold lending requirements and IIFL's tightened lending standards since the Reserve Bank of India's (RBI) supervisory action.

Supportive Operating Environment: India's robust medium-term growth potential and large, diversified economy are likely to continue supporting the business prospects and profitability of non-bank financial institutions (NBFIs). Easing domestic interest rates, moderate inflation, improved system liquidity and support for domestic consumption from reduced taxes on goods and services are likely to buffer against global economic uncertainty, particularly as India's NBFIs are mostly domestically focused.

Greater Regulatory Clarity: The enhanced gold loan regulatory framework clarifies several compliance requirements, which should reduce regulatory uncertainty for lenders. IIFL has also received new branch licences from the RBI, which indicates past regulatory concerns have been acceptably addressed. That said, credit growth may remain high as the company deploys its new branches, potentially testing its ability to maintain adequate controls.

Credit Costs to Peak: We expect credit costs (1QFY26: 3.6% annualised, FY24: 1.9%) to remain higher than IIFL's historical average in FY26, but the rate should ease thereafter as portfolio credit quality improves amid increased secured lending, and tightened loan and risk management. The gross non-performing loan (NPL) ratio of 2.3% in 1QFY26 (FY24: 2.3%, FY23: 1.8%) reflected higher delinquency rates in small business loans and microfinance, in line with broader industry trends, offset by higher write-offs, helping to contain NPLs but pushing up credit costs.

Gradual Resolution to Lingering Risks: IIFL's lingering portfolio of non-loan security receipts weighs on its asset quality profile. These are mostly commercial real-estate loans sold to asset reconstruction companies, and a gradual resolution over the next two years - as management expects - could be positive for its asset quality profile.

Profitability to Recover: A narrower net interest margin and higher credit costs are constraining near-term profitability, but we expect a recovery in loan volumes, selective expansion in lending yields and a gradual moderation in credit costs over the next one to two years to support profitability. Annualised pretax profit improved to 2.0% of average assets in 1QFY26, after declining sharply to 1.1% in FY25 (FY24: 4.5%), as rising business volumes boosted revenue

Steady Leverage: We expect leverage, as measured by debt/tangible equity (1QFY26: 3.9x, FY25: 3.8x, FY24: 4.0x), to increase slightly as the loan book continues to expand. Nonetheless, we do not expect any sharp increases and capitalisation is likely to provide an acceptable buffer against unforeseen losses. We believe management will pace on-balance-sheet growth to broadly match internal capital generation, while pursuing off-balance-sheet funding options to improve capital efficiency.

Funding to Remain Supportive: IIFL's wholesale funding profile is sensitive to market confidence, but access has improved in recent months. Funding is more diversified, with foreign bonds and foreign loans, and greater use of off-book funding channels and bank loans. Meanwhile, borrowing rates have eased, indicating improved lender comfort. A positive asset-liability maturity position supports upcoming debt repayments and provides a surplus capacity for new lending. The rising mix of short-tenor gold loans is likely to support receivable inflows to meet near-term debt maturities.

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RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A rating downgrade is less likely in light of the Positive Outlook, but the following developments could result in Fitch revising the Outlook to Stable, or taking negative action if developments are sufficiently severe:

- Aggressive growth exceeding internal capital generation that significantly weakens capital buffers;

- Significant regulatory or operational events that weaken market confidence in the company, possibly leading to diminished funding access and pressure on liquidity buffers;

- Earnings pressure such that the pretax profit/average assets ratio remains below 1.5% for a sustained period;

- Significant deterioration in problem loan exposures, including net security receipts.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- The operating environment remaining supportive, with steady asset quality, earnings and funding conditions;

- Progress in resolving the problem asset portfolio and tightened management of loan delinquencies, such that Fitch expects the problem asset portfolio to remain below 5% of gross loans and other credit exposures;

- Pretax profit/average assets to be sustained above 2%;

- Estimated liquidity inflows, including discounted loan collections, continuing to exceed upcoming maturities on a three-month and 12-month basis under Fitch's stress scenario, with acceptable liquid asset buffers;

- Debt/tangible equity sustained below 4.5x

DEBT AND OTHER INSTRUMENT RATINGS: KEY RATING DRIVERS

The US dollar senior secured GMTN programme and foreign-currency debt are rated at the same level as IIFL's Long-Term Foreign-Currency IDR, in line with Fitch's rating criteria. The debt of Indian NBFIs is usually secured and we believe non-payment of the senior secured debt would best reflect the entity's uncured failure. NBFIs can issue unsecured debt in the offshore market, but such debt is likely to form a small part of total funding and cannot be viewed as their primary financial obligations.

The Recovery Rating of 'RR4' on the senior secured debt reflects our expectation of 'Average' recovery prospects in the event of default, in line with our criteria for entities with a Long-Term IDR of 'B+' or below, domiciled in India.

The notes are subject to a cross-acceleration clause, where the acceleration of any debt of the issuer or its principal subsidiaries may constitute an event of default. Fitch understands that IIFL's microfinance subsidiary has breached certain loan covenants due to rising sector delinquencies. However, lenders have not taken adverse action on this breach so far, and the issuer and its principal subsidiaries continue to meet all their repayment obligations. A gradual recovery in microfinance delinquencies is likely to help to cure this position.

DEBT AND OTHER INSTRUMENT RATINGS: RATING SENSITIVITIES

Any change in the Long-Term Foreign-Currency IDR would lead to a corresponding change in the MTN programme rating.

ADJUSTMENTS

The sector risk operating environment score has been assigned above the implied score for the following adjustment reasons: economic performance (positive), size and structure of economy (positive).

The business profile score has been assigned below the implied score for the following adjustment reason: business model (negative).

The asset quality score has been assigned below the implied score for the following adjustment reason: non-loan exposures (negative).

The funding, liquidity and coverage score has been assigned above the implied score for the following adjustment reasons: funding flexibility (positive), cash flow generative business model (positive).

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

IIFL has an ESG Relevance Score of '4' for Management Strategy, as we believe the company's operations and franchise remain sensitive to management's ability to maintain sound implementation of internal controls and return the business to adequate profitability now that sanctions have been lifted.

IIFL has an ESG Relevance Score of '4' for Governance Structure, as the history of regulatory action imply a record of gaps in the oversight structure and management of compliance risks that may pose reputational risks for the company.

IIFL's ESG Relevance Score for Customer Welfare - Fair Messaging, Privacy & Data Security, has been revised to '3' from '4', reflecting indications that regulatory concerns around IIFL's gold loan customer-related practices have been acceptably addressed and lending restrictions lifted.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores

RATING ACTIONS

ENTITY / DEBT	RATING			RECOVERY	PRIOR
IIFL Finance Limited	LT IDR	B+ Rating Outlook Positive	Affirmed		B+ Rating Outlook Stable
senior secured	LT	B+	Affirmed	RR4	B+
senior secured	LT	B+	Affirmed		B+

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Country-Specific Treatment of Recovery Ratings Criteria (pub. 04 Mar 2023)

Non-Bank Financial Institutions Rating Criteria (pub. 01 Feb 2025) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

IIFL Finance Limited	EU Endorsed, UK Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

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